

Message Text

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ACTION EB-07

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C O N F I D E N T I A L WARSAW 1369

E.O. 11652: GDS

TAGS: ECON, PL

SUBJECT: CONSUMER PRICE INCREASES (C-ER-6-59723)

REF: (A) STATE 045329 (B) 75 WARSAW 7258

1. SUMMARY: ALTHOUGH THE NOW-FROZEN PRICES OF SOME BASIC FOOD ITEMS ARE WIDELY EXPECTED TO INCREASE THIS YEAR, WE HAVE SEEN NO EVIDENCE THAT THESE CHANGES ARE BEING INTRODUCED AT THE PRESENT TIME. WE THINK IT UNLIKELY THAT THE GOVERNMENT'S PRICE POLICY WILL BE REVISED BEFORE THE NEW SEJM IS ELECTED MARCH 21. A FEBRUARY 27 DECISION OF THE GOVERNMENT PRESIDIUM PLACED LIMITS ON THE USE OF HARD COAL FOR POWER GENERATION, BUT THERE IS NO EVIDENCE THAT COAL SUPPLIES TO PRIVATE USERS ARE BEING RATIONED. END SUMMARY.

2. THE PRICE OF STANDARD BREAD FLOUR IS 6.70 ZLOTYS PER KILO AS OF MARCH 1, 1976, AND HAS NOT CHANGED SINCE 1960, APART FROM A TEMPORARY INCREASE TO 7.80 ZLOTYS PER KILO BETWEEN DECEMBER 13, 1970, AND FEBRUARY 28, 1971. THE PRICE OF STANDARD CRYSTAL SUGAR IS 10.50 ZLOTYS PER KILO, AND HAS NOT CHANGED SINCE 1970. CHANGES IN FURNITURE PRICES WERE RUMORED DURING DECEMBER, 1975, CONFIDENTIAL

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BUT TO THE BEST OF OUR KNOWLEDGE NO MAJOR INCREASES HAVE BEEN LEVIED.

3. WE DOUBT THAT GERERAL CHANGES IN FIXED PRICES WILL BE INITIATED WITHOUT SOME FORM OF GOVERNMENT ANNOUNCEMENT, IN VIEW OF GIEREK'S STATEMENT TO THE SEVENTH CONGRESS THAT POLICY RECOMMENDATION ON PRICES WOULD BE PRESENTED TO THE SEJM FOLLOWING CONSULTATION WITH THE PUBLIC. ALSO, SUBSTANTIAL PRICE RISES WOULD SEEM UNLIKELY BEFORE THE EASTER HOLIDAYS.

4. PRICE CHANGES OF VARIOUS KINDS HAVE ROUTINELY TAKEN PLACE IN POLAND THROUGHOUT THE PERIOD OF THE PRICE FREEZE ON BASIC FOODSTUFFS. AS WE HAVE REPORTED, PRICES IN THE PRIVATE MARKETS, AS OPPOSED TO STATE OUTLETS, ARE NOT FIXED BY THE GOVERNMENT. THE PRICES OF MOST FOOD ITEMS OBTAINABLE FROM PRIVATE VENDORS FLUCTUATE FREELY AND ARE CONSIDERABLY HIGHER THAN THOSE OF THE SAME ITEMS IN STATE STORES. ONE TECHNIQUE FOR RAISING PRICES IS THE INTRODUCTION OF NEW PRODUCTS TO THE DOMESTIC MARKET. IN A TYPICAL CASE, THE STATE ENTERPRISE MANUFACTURING LIGHT SWITCHES, FINDING THAT IT IS NO LONGER PROFITABLE TO PRODUCE A SWITCH THE PRICE OF WHICH HAS BEEN FROZEN, WILL INTRODUCE A NEW MODEL, DIFFERENT ENOUGH FROM THE OLD PRODUCT TO ALLOW SALE AT A HIGHER PRICE. SUBSEQUENTLY, THE UNPROFITABLE LINE WILL EITHER DISAPPEAR FROM THE MARKET OR BE PRODUCED IN SUCH SMALL QUANTITIES AS TO BE VIRTUALLY UNOBTAINABLE. THIS PROCEDURE WORKS BEST WITH NON-FOOD ITEMS, AND, SO FAR AS WE KNOW, HAS NOT BEEN WIDELY USED TO RAISE THE PRICES OF FOODSTUFFS.

5. COAL SUPPLIES TO THE DOMESTIC ECONOMY ARE BEING DISRUPTED OCCASIONALLY BY SEVERAL RECENT DEVELOPMENTS. FIRST, A NEW SYSTEM OF REGIONAL COAL DEPOTS IS BEING INTRODUCED WITH SOME DISRUPTIONS. SECOND, EFFORTS ARE BEING MADE TO LIMIT THE USE OF COAL FOR OTHER THAN HOME-HEATING PURPOSES SO THAT MORE WILL BE AVAILABLE FOR EXPORT. THE PRICE OF COAL TO INDUSTRIES WAS RAISED BY 25 PERCENT EFFECTIVE JANUARY 1, 1976, AND EACH MINISTRY HAS BEEN GIVEN A LIMIT ON THE AMOUNT OF COAL IT CAN USE FOR POWER GENERATION. WE HAVE FOUND NO EVIDENCE THAT

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COAL IS BEING RATIONED TO PRIVATE USERS.

6. PUBLIC APPREHENSION ABOUT PRICE CHANGES SEEMS TO HAVE EASED CONSIDERABLY IN RECENT WEEKS, FOLLOWING A PERIOD OF INTENSE CONCERN PRECEDING THE PARTY CONGRESS IN DECEMBER. THE INEVITABILITY OF PRICE RISES SEEMS WIDELY ACCEPTED, BUT OTHER IMPORTANT ISSUES, SUCH AS THE RECENT CONSTITUTIONAL CHANGES, SEEM TO HAVE DISPLACED

PRICES FOR A TIME AS THE FOCAL POINT OF PUBLIC ATTENTION. ALTHOUGH MOST POLES PROBABLY TAKE A CYNICAL VIEW OF THE PLEDGE MADE AT THE SEVENTH CONGRESS TO CONSULT WITH THE PEOPLE BEFORE PRICE CHANGES ARE MADE, THEY NEVERTHELESS SEEM TO EXPECT THAT PRICE RISES WILL BE PRECEDED BY SOME FORM OF OVERT GOVERNMENT ACTIVITY. THERE HAS BEEN NO SIGN OF GOVERNMENT ACTION ON PRICES SINCE THE CONGRESS, NOR HAS PRICE POLICY BEEN DISCUSSED IN THE PRESS. WE EXPECT THAT PUBLIC SENTIMENT ON THE PRICE ISSUE WOULD BE REKINDLED BY THE FIRST EVIDENCE THAT THE GOVERNMENT IS TURNING ITS ATTENTION TO PRICE REVISIONS, OR BY THE INITIATION OF A PRESS CAMPAIGN TO SUPPORT A NEW PRICE POLICY.

7. WE SEE NO EVIDENCE OF THE FOOD SHORTAGES WHICH BEGAN AT ABOUT THIS TIME IN 1975. MEAT SUPPLIES ARE, AS USUAL, INADEQUATE, AND ECONOMIC PUBLICATIONS, SUCH AS ZYCIE GOSPODARCZE, HAVE POINTED OUT THAT A SIGNIFICANT IMPROVEMENT IN PRODUCTION WILL NOT TAKE PLACE BEFORE SUMMER, BUT WE ARE NOT EXPERIENCING THE ACUTE SHORTAGES NOTED IN THE SPRING OF 1975. EXPORTS OF CERTAIN MEAT AND POULTRY PRODUCTS WERE REDUCED AS FOLLOWS DURING THE FIRST 11 MONTHS OF 1975, AS COMPARED WITH THE SAME PERIOD OF 1974:

RAW MEAT-EXPORTS DOWN 6.5 PERCENT;

MEAT PRESERVES-EXPORTS DOWN 20.6 PERCENT;

POULTRY-EXPORTS DOWN 31.6 PERCENT.

EXPORT SALES OF CANNED HAMS AND PORK SHOULDERS, WHICH ARE USUALLY NOT AVAILABLE LOCALLY ANYWAY, INCREASED 11.3 PERCENT OVER THE SAME PERIOD. BUTTER EXPORTS HAVE DECLINED BY 62.5 PERCENT.

8. WE WILL CONTINUE TO REPORT SIGNIFICANT DEVELOPMENTS
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ON PRICE INCREASES, FOOD SHORTAGES, AND CONSUMER REACTIONS TO PRICES AND DOMESTIC MARKET SUPPLIES.
DAVIES

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